

\$40.00 ANNUALLY
40 Letters Per Year

Dow Theory Letters

"The Market as Interpreted under the Dow Theory"

RICHARD RUSSELL
125 East 93rd Street
New York City 28

Registered with the Securities and Exchange Commission

Copyright 1960 - Richard Russell

January 13, 1960

Number 90

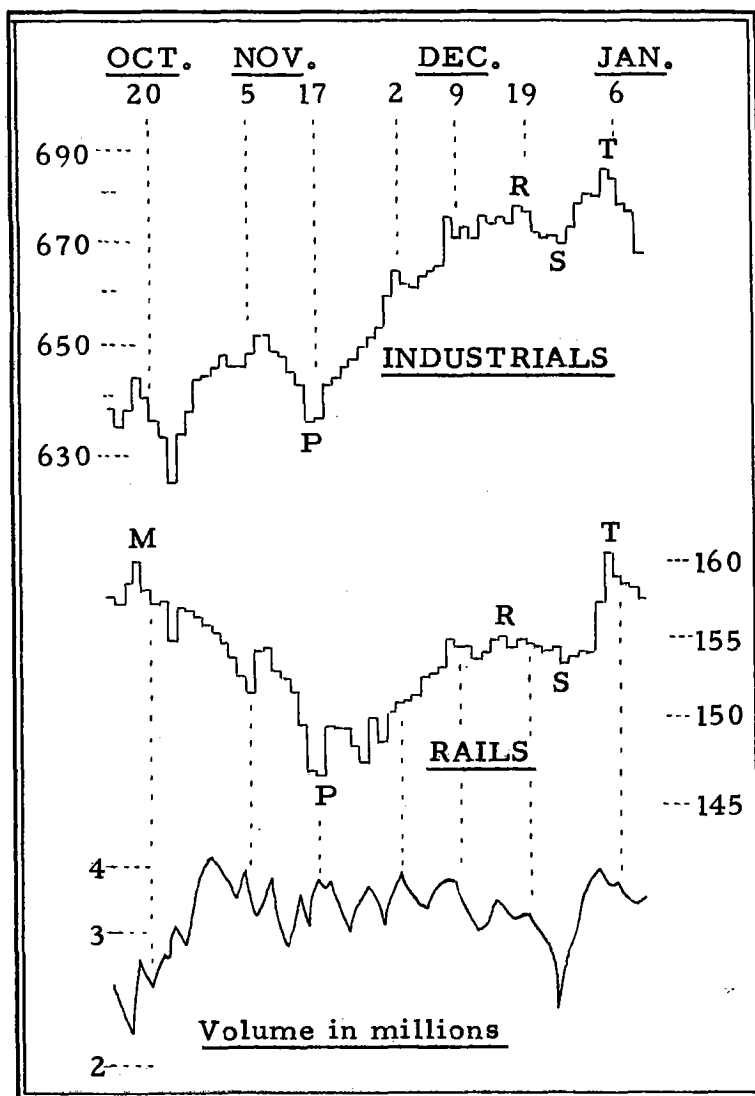
Page 1

CURRENT MARKET. The steel strike has been settled, business is good and the forecasts for 1960 are better than good. Yet the price movements, following the initial surge which accompanied the upward breakout from the "line", have been anything but impressive. Such action can only occur when the market stops to reappraise the factors which will dominate the economy in the period ahead. As far as the current happy state of business is concerned, the stock market barometer has been discounting it for over two years -- or ever since the Averages turned up in late 1957.

The Wall Street Journal's George Shea put his finger on the pulse of the market when he wrote (January 11) that few observers have doubts about the first half of 1960; then he added, "The question in everyone's mind is what will happen in the second half?" Historically, the Averages tend to discount economic conditions anywhere from a few months to a year away. In my opinion, the market has already thoroughly discounted the inventory-building and optimism which will probably accompany the near-term in business; it is now appraising the period of mid-year and beyond when inventory-building could conceivably slow down and when the effects of tight money will be known.

I have previously stated that if economic conditions in this country are to surpass those which existed in July, 1959, both Averages will eventually better their previous highs (Industrials 678.10, Rails 173.56), and by so doing reaffirm the primary bull trend. Industrials did their part on the last day of 1959 when they hurdled their August, 1959 bull market high. After lagging behind for two months Rails finally embarked on an upward swing which by last week had taken that Average a fraction above its first important peak at M.

It should be remembered, however, that the primary Rail objective is the August high of 173.56. Under Dow Theory, when both Averages better previous highs the significance of all preceding low points is erased. For this reason, until Rails do better 173.56, the recent reaction lows (Industrials 616.45, Rails 146.65) stand as bear signal points. Should both Averages turn down and violate these points on high volume (prior to a Rail bettering of 173.56)

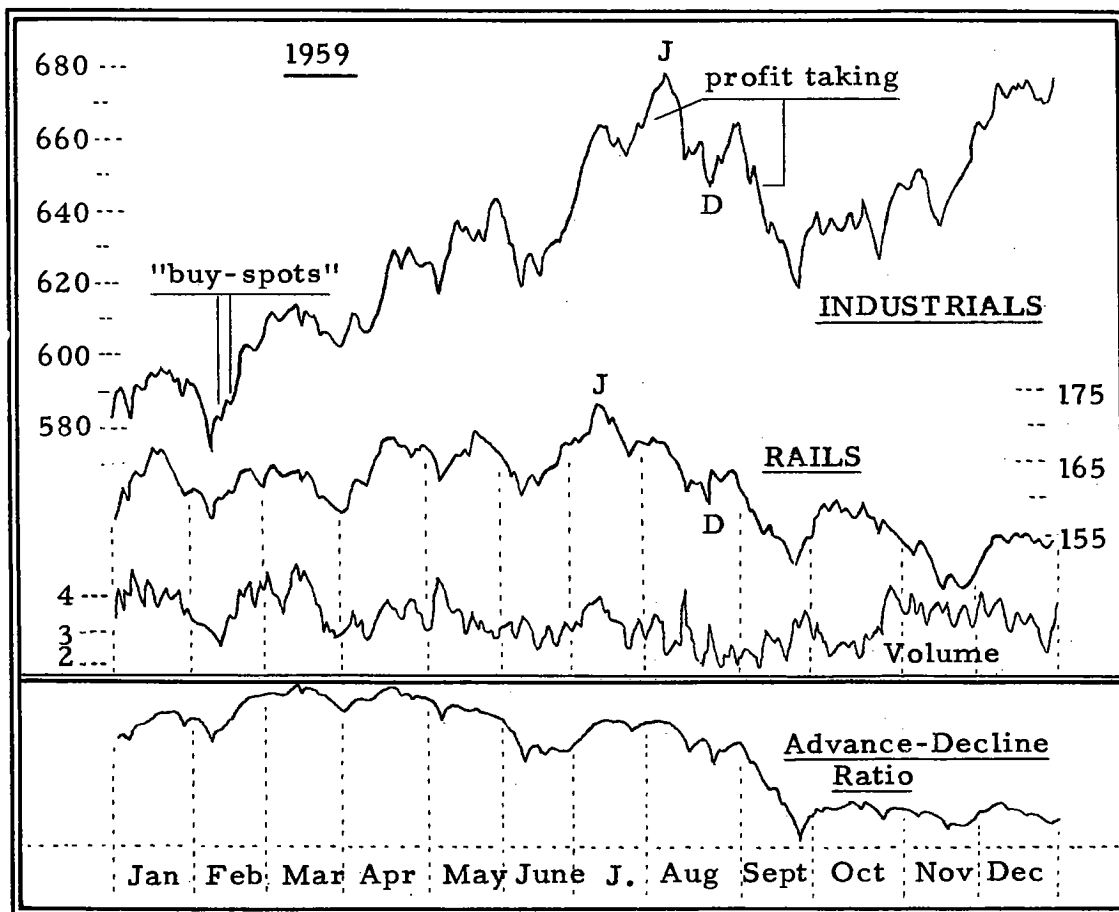


we would concede that the bull market had ended.

In my observation the rails tend to be bought and sold by the more sophisticated element in the market. Admittedly the rails are not a "growth" group. The carriers are generally "traded" in contrast to many industrial stocks which are bought and "held". This means that professionals will take a position in Rails only when they sense a forthcoming increase in rail traffic and earnings. Conversely, these same professionals will sell rail stocks on any sign of a fundamental downturn in rail carloadings. In other words, whereas an astute trader might decide to hold his Dow Chemical through a secondary reaction, he would be more inclined to dump his New York Central. This makes for wider percentage swings in rails; it also explains why the Rail Average is a sensitive barometer of shipping and transportation trends.

The violent rally which accompanied the topside penetration of the "line" ended as quickly as it began. After writing about rail weakness for many months, I find it almost ironic to report that the brightest spot in the market picture since T (see chart) has been the action of the Rails. On Monday (January 11) Industrials violated their lower line limits at S (669.77) but Rails, as of this writing, have held above their comparable S point. Volume increased as Industrials penetrated S, but as long as Rails hold above S (153.32) the indications will not be completely bearish. A persistent refusal by Rails to violate their S point would suggest a rally and perhaps another approach to the T highs (Industrials 685.47, Rails 160.43). Conversely, a violation of S by Rails on expanding volume would be distinctly bearish, and in this case profit taking could prove the better part of valor. A bettering of the T points by both Averages on increasing volume will be needed before an "all clear" signal can be sounded.

1959. In the January 6 issue of the New York World Telegram and Sun Mr. William Bloet wrote: "With the digiteers wearing out their pencils as they clean up on 1959 in the stock market, the one obvious fact that emerges was one well known to many people -- it wasn't easy to make money last year." He then points out that "of the 1518 issues that appeared on the tape during the year, by the final report 628 had advanced and 710 had declined, the rest holding unchanged which, while comforting, isn't the easiest way to make money either." But on the great 1958 advance, noted Mr. Bloeth, "...there were 1298 issues that advanced and only 135 declines and a mere 79 that ended unchanged."



In other words, investors during 1959 faced a rather difficult year. As seen on the chart on page 2, we identified our first 1959 "buy-spots" back in February (see Letter 56). For the sake of new readers, a buy-spot in a bull market is an area where, following a normal decline, the Averages rally and then retreat on diminishing volume while holding above the preceding decline levels. The second decline on decreasing volume implies an absence of selling pressure, and this is the place where Dow Theorists make new commitments. Such procedure is in sharp contrast to the prevailing opinion which holds that Dow Theorists buy only when previous highs are bettered. Nothing could be further from the fact. The best buying is always done in areas of dullness at or just above previous decline levels.

Following the February buy-spots which came at about 585 on the D-J Industrials, we rode out the ensuing rise until late July, at which point we began taking a few profits (Letter 73). Noting the Industrial peak (j) which was unconfirmed by Rails, I suggested additional and more extensive profit taking if the decline lows at D were violated on increasing volume. This violation occurred, and it served to "tip off" the first reaction since 1957. It also meant that Dow Theorists had enjoyed a reasonably safe swing beginning at 585 and ending at 678 with the important danger signals coming at 646 on the Industrial Average.

Subsequent to the September lows, subscribers were informed of the significance of a second decline which might take both Averages back through the September lows on expanding volume. This, I wrote, would be a bear signal, and it would mean that the time had come to "clean house".

The alternatives of sitting out the reaction or taking profits were then explained (Letter 80). Although Rails did break their September low, Industrials refused to confirm the move, and a bear signal was thus averted.

It is interesting to observe that on the swing back from the September lows, the advance-decline ratio went dead (see lower section of chart). This indicator shows the ratio of total daily advances and declines on the N.Y. Stock Exchange. Note that this ratio hit a high in March, 1959, then headed down. It broke sharply on the August-September reaction, but on the recovery which took the D-J Industrials to a new high, the advance-decline ratio merely flattened out. This means that the majority of stocks on the Big Board were not moving with the D-J Industrials -- a phenomenon which, in the past, has suggested technical weakness. The unsatisfactory action of the advance-decline ratio has, of course, backed up Mr. Bloeth's observations regarding the movements of the majority of stocks during 1959.

BILLS. Like an awakening giant, the U.S. public blinked, then stood on line for their second helping of Treasury debt. I am referring to the new 1 year bills. These periodic "raids" on bank savings could prove to be financial dynamite, since the net result is a sopping up of funds already committed to the savings institutions. The public first learned about notes (notes are one to five year maturities) via the "magic fives". Now it is learning about bills (bills are maturities of less than one year). There should be no shortage of bills or notes in the coming year. The total of U.S. debt coming to maturity in the next year is 86 billion (!) or almost one-third of the national debt.

NOTE. Beginning February 1st the price of a subscription to these Letters will be increased to \$50.00 annually and \$30.00 for a six month subscription. However, I will accept all new subscriptions and any renewals or extensions at the old price up to February 1st. Over the last four months the price of paper, printing and envelopes has been raised. Older subscribers are also aware that these Letters have tended to three or four pages in length rather than the earlier two or three. This alone has raised my printing costs proportionately. Unlike most services, I have never charged extra for Airmail nor do I intend to start. I had hoped to continue to charge the same price as did Rhea during the late 1930's (\$40.00 annually), but I have found it a squeeze in the present world of high labor, material and postage costs.

(Written January 12th, 1 P.M.)